

# NAVAL POSTGRADUATE SCHOOL

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## THESIS

### BULGARIA AND NATO's MILITARY INTERVENTION IN YUGOSLAVIA

by

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June 2000

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**BULGARIA AND NATO's MILITARY INTERVENTION IN YUGOSLAVIA**

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Submitted in partial fulfillment of the  
requirements for the degree of

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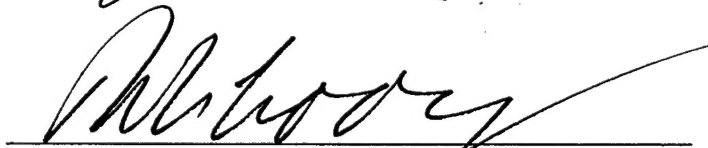
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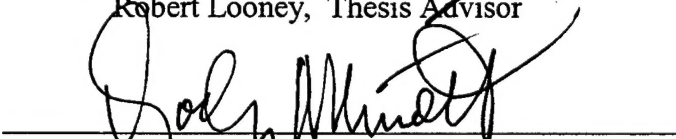
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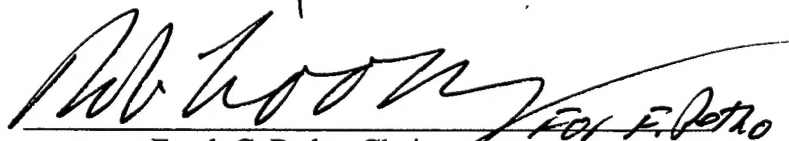
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## **ABSTRACT**

This thesis examines Bulgarian political and economic issues regarding NATO's military intervention in Yugoslavia in 1999. It studies: Bulgarian policy regarding Kosovo crisis; the domestic political attitudes and discussions over NATO's military intervention and over government's foreign policy on this issue; the impact of the war in Yugoslavia and post-war order on Bulgarian economy and Bulgarian domestic and foreign politics. The thesis attempts to evaluate some cost-effective assessments about short and long term consequences for Bulgaria.

In spite of the initial highly negative and catastrophic expectations of the Bulgarian public, the country gained significant political dividends. Bulgarian prospects for EU and NATO membership now seem to be much more realistic than ever in the past.

At the same time, NATO intervention and the postwar settlements have not solved the ethnic, political, military and economic problems on the Balkans, but complicated them and posed serious new risks for Bulgaria and for the Balkans in general. The war also brought certain negative ecologic effects. The intervention in Yugoslavia and its support by the Bulgarian government complicated Bulgarian-Russian relations, which most probably will have long-term negative effect on Bulgarian economy.

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## I. INTRODUCTION

The ethnic conflict in Kosovo emerged in the end of the 1980s and was gradually gaining speed by 1998, when with the appearance of the KLA it turned into an ethnic civil war. For the Serbian violent chauvinism it was simply a continuation of the bloody ethnic slaughters in Bosnia and of the ethnic clashes in Croatia and Slovenia. Surprisingly (not only for Milosevic and for the Serbs) after its long shameful indolence witnessing the extreme and disgusting mass atrocities in Bosnia, this time NATO took the initiative and acted (and overacted) decisively. Milosevic received an ultimatum. It's clauses seemed so extreme that nobody seriously expected that Milosevic would accept it. The outcome was an unavoidable military intervention and war over Kosovo. The war lasted less than two and a half months, but it radically changed the situation and the fate of the Balkans, established precedents, gave nuances to and created new realities in Europe and in the world order.

The Bulgarian government took an active position on the issue before the beginning of the intervention. In a dramatic and risky international and domestic situation the Bulgarian leaders took an important decision and decisively pursued it. The war and the policy of the government towards it seem to have significant and long-term consequences for the country.

The purpose of the thesis is to study the Bulgarian political and economic issues related to NATO military intervention in Yugoslavia. The main issues and main questions of the research are as follows:

- What was the policy of the Bulgarian government towards the Kosovo crisis and NATO military intervention there?
- What were the factors and motives influencing this policy, and how did it evolve?
- What was the attitude of the Bulgarian public toward NATO military intervention in Yugoslavia?
- What problems and frictions did, the Bulgarian government support for NATO policy towards Yugoslavia, face?
- What were the expectations and the forecasts, of both the government and the public, for the consequences of the war for Bulgaria and how they conform to the real immediate and long-term economic, political and social outcome?
- How did the Bulgarian policy regarding NATO intervention affect the international status quo of the country and its relations with NATO member countries as well as with Russia, and the neighboring Balkan countries?
- Was the Bulgarian support for NATO intervention in Yugoslavia justified in terms of national interests? What are the gains, losses, and risks?
- How would in the long-run the future of the Balkans and Bulgaria in particular be affected by the most recent war in Yugoslavia and the postwar settlement of the issue ?
- How did NATO military intervention and the government support for it, influence the Bulgarian domestic politics.

The purpose of this thesis is to evaluate some cost-effective assessments about the short and long term consequences of the crisis for Bulgaria. Furthermore, it outlines the problems, misperceptions, ethnic, political, social and economic threats for Bulgaria, as well as for the EU and NATO policy in this region.

This thesis represents the best comprehensive examination of the topic. The analysis relies on open sources: official documents of the Bulgarian government, statistical data, articles in the Bulgarian, European and United States press. As the main sources for this topic are Bulgarian, most of them are not widely accessible in the United States.

## **II. BULGARIA, NATO, AND IT'S CAMPAIGN IN KOSOVO: POLITICAL AND PUBLIC ISSUES**

On May 4th 1999 the Bulgarian parliament formally ratified an agreement providing its airspace to the use of NATO during hostilities with Yugoslavia. In the Bulgarian National Assembly 154 MPs voted for while only 83 of them were against it. The result of the vote did not surprise anyone taking into account that the ruling Union of Democratic Forces (UDF) was consistently supporting NATO bombing campaign against Serbia as well as the overall majority of the party in Parliament.

### **A. ATTITUDE OF THE BULGARIAN PUBLIC TOWARD NATO AND THE CONFLICT OVER KOSOVO**

Though party discipline and consolidated voting of the ruling majority may present a misleading picture of the Bulgarian attitude toward NATO campaign in Kosovo, attention should be paid to the fact that the public attitude in the country was rather controversial. In spite of the determined vote in Parliament, the decision itself was politically very complicated and dramatic. It was not easy to take such a decision. The resolute support of the Bulgarian government for NATO military campaign against Yugoslavia posed certain economic, military and political risks for Bulgaria and threatened the popularity of the ruling coalition.



## **1. Reasons and Factors, Shaping the Bulgarian Public Attitude Towards NATO Military Campaign in Yugoslavia**

While in neighboring Romania the opposition Socialist Party supports NATO membership it is not quite the case with Bulgaria. The general belief is that the public opinion is against NATO bombing campaign; more than that, people's concerns became even stronger when on April 30<sup>th</sup>, a missile accidentally tore off the roof of a house in the outskirts of the capital Sofia. Since March 24<sup>th</sup> this was the sixth misguided bomb to land on Bulgarian territory.

We can easily leave aside the variations in the political attitude towards NATO, since everybody is entitled to one of his own. The much more serious problem the Bulgarians had to face were the costs of the war: millions of dollars in lost trade because of closed traffic on the Danube and closed transit through Yugoslavia, which is the short cut to all Western markets.

There is yet another important factor shaping the negative attitude toward NATO military campaign. It seems that not enough account was taken of it or at least it is not articulated clearly enough in the majority of the analysis done so far. Throughout the 20<sup>th</sup> century history of war Bulgaria had to live through three national catastrophes. In all these wars (the Balkan wars of 1911-1913, the First World War, and the Second World War) Bulgaria played a central and highly active role of a revengeful and aggressive political and military force on the Balkans, seeking its national unification. A cornerstone issue of all these Balkan conflicts was Macedonia, where the overwhelming majority of the population had a Bulgarian self-determination, and where a century earlier the Bulgarian national revival was initiated. This recurring and painful historical experience

resulted in a peculiar Bulgarian pacifistic syndrome, unanalyzed by anybody by now. It is very similar to the German syndrome after the World War II. The Bulgarian public fears of any military conflict on the Balkans, and most of all it fears of any possibility for involving the country in such a conflict. Due to that the Bulgarian public is absolutely negative to any militarism and any military action on the Balkans, and rejects any political act of support for any kind of military conflict.

For that same reason, the Bulgarians are fearful and suspicious of any precedent, related to violating the territorial status quo and the sovereignty of the countries on the Balkan Peninsula in favor of ethnic principles, as they see in it the possibility for new Balkan wars. Unfortunately, the Kosovo case turned out to be exactly what the Bulgarians feared mostly. The fact that Bulgaria has Turkish and Muslim Bulgarian minorities (8-10% of the population, compactly settled mostly along the Bulgarian borders) is yet another reason for strong fears from such precedents.

The war in Kosovo and its secession from Serbia indirectly touches upon one of the most sensitive aspects of the Bulgarian historical syndrome, Macedonia. The precedent with Kosovo poses serious threats to the neighboring Macedonia with its expansively growing minority of Albanians as represented by their aggressive nationalist party. As far as information goes the KLA and Albanian organizations in Macedonia are closely interacting.

There is a paradoxical situation in the Bulgarian attitude and fears for Macedonia.

On the one hand, nobody in the Bulgarian society has any doubts about the Bulgarian ethnicity of the Macedonians. All the Greek as well as the majority of sources of the other Balkan countries share the same opinion, excluding quite anurally the sources

in Macedonia, and partly those in Yugoslavia. During the last two centuries Macedonia gave birth to a significant part of the Bulgarian public elite: writers, artists, politicians, scholars, etc. The first ideas, events and figures of the Bulgarian national revival movement started in Macedonia and after that they spread in the other parts of the Bulgarian territories. According to the censuses in the beginning of the 20<sup>th</sup> century when Macedonia was part of the Ottoman Empire, between 50% and 80% of the population in the different Macedonian areas was Bulgarian. According to the last census done in independent and “free” Macedonia there are no Bulgarians at all.

On the other hand, because of its frustrating historical experience with the Macedonian problem, the Bulgarian public generally has a highly negative attitude toward any possible Bulgarian commitment to this problem. That is why it fears any new upheaval in this country, which may involve Bulgaria in any political or military confrontation. In spite of the historical truth and the historical background of Macedonia and because of the series of Bulgarian war catastrophes, the majority of the Bulgarians accept the existence of an independent Macedonia separated from Bulgaria as something given and as part of the contemporary status quo, which has to be preserved in order to keep the peace on the Balkans. Therefore, there is no serious and influential politician in Bulgaria, who would dare to pursue the political rejoining of Macedonia. What, the overall Bulgarian public and politicians pursue, is an intensive cultural and economic exchange, as well as good neighborly relations in the field of politics. That is why, despite the humiliating anti-Bulgarian ideological campaign in the Republic of Macedonia, Bulgaria was the first country to recognize it as an independent state (not completely agreeing on the issues of the so-called “Macedonian” language and

Macedonian nation). Later on, seeking to maintain good neighborly relations, and to avoid any reason for conflicts, the Bulgarian government was forced to accept the twist of the history and to recognize formally the existence of a Macedonian nation and of a "Macedonian" language as the official language of the Republic of Macedonia. (The way this act was justified in front of the Bulgarian public was by explaining that it is only formal and indispensable recognition of the formal statement of the Macedonian Constitution, which defines the Macedonian dialect of the Bulgarian language as a Macedonian language. This act is dealing with a formal law, and has nothing to do with the language and historical truth.) Finally, Bulgaria was the country that donated 94 (!) tanks to Macedonia. By doing this Bulgaria contributed to the strengthening of the fragile defense capabilities of Macedonia, which in fact gives Bulgaria good reasons to avoid a direct (and dangerous) military commitment to the defense of Macedonia in case of probable military conflicts in the future.

The Bulgarian public fears that the Kosovo precedent poses great risks for the Macedonian security, as well as for the Bulgarian security. Macedonia could very well be "the next in the Balkan domino." Probable dramatic upheavals with the Albanians in that country may force the Macedonian decision-makers to recall their Bulgarian roots and to ask help from Bulgaria. Such a development may involve Bulgaria in a conflict, despite of the will of the Bulgarian public and politicians to stay away from any Macedonian problems.

Other factors that shaped the Bulgarian public attitude toward the conflict over Kosovo were related to the Bulgarian cultural background. The interpretations of the conflict in terms of a "clash of civilizations" were popular among certain opposition

circles in the Bulgarian public. They were strongly influenced by Samuel Huntington's approach, which seems to have a dangerous influence on international relations, and especially on inter-ethnic and international relations on the Balkans. The followers of this approach joined the arguments of the Serb's propaganda and claimed that the conflict is between the Orthodox Slavic civilization and the Muslim one, supported by the West. In the light of such arguments Bulgaria as an Orthodox and Slavic nation, which has a heavy historical burden left by five centuries of Muslim rule, should not support NATO military intervention against Slavic and Orthodox Serbia. According to these interpretations, the Bulgarian support for NATO campaign would aggravate not only the relations with neighboring Yugoslavia, but also the relations with Russia, since NATO military intervention was seen as aiming to push out Russia from a considered of its vital interest area. Whereas NATO campaign was seen to affirm the United States world's hegemony, avoiding the UN Security Council and the obstructions of the Russian. Since Bulgaria is greatly depending on Russian oil and energy this government policy was seen and considered to be against the Bulgarian interests.

For sure the Bulgarian public opinion was shaped taking into account the elements of the cultural attitude. We had a similar situation in Orthodox Greece, a NATO member, where the public and even part of the government was against NATO military intervention. Anyway, the importance of these cultural factors was usually exaggerated and exploited by the Bulgarian opposition and by the media influenced by it.

## **2. Opinion Polls and Mass Media Coverage of the Conflict and the Government Support for NATO Campaign**

The opinion polls and the attitude of the mass media extremely well mirrored the public attitude during the dramatic situation in the spring of 1999.

The key to understanding the situation in Bulgaria is the obvious fact that the majority of the Bulgarians were against NATO bombing. From the very start, public opinion polls showed that the opposition to the latter exceeded 65%. This high percentage of opponents was misinterpreted both by the politicians as well as the media, since 65% against NATO strikes does not mean 65% in support of the Serbian cause or Milosevic - contrary to what the opposition suggested and to the impression that the common readers were left with. It is a fact, however, that there was no open support for NATO in the media in the first few weeks of the war, partly because this would have meant "support for the war." The opponents of the war, however, proved to be of a complex composition, which explains the apparent contradictions in poll findings — though 65% of the Bulgarians were against the air strikes, almost the same percentage qualified the Cabinet's stand as adequate, and support for Bulgaria's membership in NATO, though slightly lower, remains at around 50%.<sup>1</sup>

The split of the Bulgarian public was reflected in the split of the media. On the one side, daily papers like *Monitor*, *Sega* (influenced by the left centrist Parliamentary coalition) and *Douma* (daily of the Bulgarian Socialist Party) were against the Allied military campaign and Bulgaria's support for it (or involvement in any form whatsoever). On the other side, daily papers like *Standart News* and *Demokratiya* (daily of the ruling

coalition Union of the Democratic Forces) are for NATO strikes in general and the response of the Bulgarian Government in particular. The dailies with the highest circulation, *Troud* and *24 Chassa* (owned by a German press group), seek a more balanced approach (especially in the first days of the conflict), in an effort to maintain plurality of opinion.

As a whole, the tone of the press reaction is a sort of a crescendo. The dailies are almost hysterical in their coverage of events such as stray NATO missiles in Bulgaria or rumors that NATO aircrafts were flying over this country. Such events are invariably reported on the front page under banner headlines: "Missile Hits Trun" (*Sega*, Mar 27); "Second Missile Drops 8 Km from Trun" (*Sega*, Mar 31); "200 NATO Aircrafts Fly Over Bulgaria" (*Douma*, Apr 8), "Toxic Cocktail Spreads by Water and Air" (*Sega*, Apr 20); "Oil [Slick] from the War [Drifts] Near N-Plant" (*24 Chassa*, Apr 8); "They Treat Us with Depleted Uranium" (*Douma*, Apr 29).<sup>2</sup>

In its first days and weeks, the war even overshadowed the domestic news. It was the sole topic in the international columns. There was virtually no independent coverage of the neighbors, who are mentioned only in connection with the military conflict. The press had lost the race with the electronic media. Since bombing was carried out mainly at night, the morning dailies (there is just one afternoon daily in Bulgaria) were full of "stale" news already reported on TV and radio. This is partly why the papers opted for the sensational approach — since the news can no longer be sold as news, the press stakes on

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<sup>1</sup> Yanovski, Roumen, Balkan Neighbours Project. The War in Yugoslavia and the Bulgarian Press, available in the Internet at: <http://www.access.online.bg/archive/bn/hotpoints/kosovo99/bulgaria.htm>

<sup>2</sup> Ibid.

sensational reporting (hair-raising banner headlines, suspicions and highlights). The incumbents also contribute to this with their inadequate information policy.

As the crisis escalated, polarization of opinion on the adequacy of Sofia's response acquired hysterical proportions in the views and positions of the opposition press. Some of the evaluations were clearly provocative, which was one of the reasons for soaring public tensions and the hysterical reaction of the opposition. Thus, for instance, *Monitor* conveyed the impression of a chasm between the attitude of the public and the Government: "A Government Against a Nation" (Apr 21). The ruling majority was accused of being an instrument of interests running counter to national interests. Some described the incumbents as "Bulgarian puppets" whose strings are pulled by their "American masters"; "The Government serves NATO" (*Douma*, Mar 31).

Criticism of the Government's information policy was strong (and justified): "...the incumbents' communiqués and reports of the 'strike' resemble CNN newscasts (...) The political elite was sending confusing messages that abound in pretentious and absurd phrases incomprehensible to the ordinary public" (*Sega*, Apr 8). "It is better to have politicians with clear stands with whom one disagrees than to support secretive rulers" (*Sega*, Apr 20).

The other side (*Demokratiya* and *Standart News*) presented the stand and the reactions of the incumbents in a much better light — as efforts to reach the best decision for the Bulgarian national interests by conducting an active and responsible policy. Without laudatory evaluations (inappropriate in such situations), these dailies' support for the official stand consisted mainly of detailed coverage highlighting the positive aspects of this stand. Along with objective information on the concrete steps undertaken by the



Government, the dailies devoted considerable space to the power-holders' attitude to the activities of the opposition and mainly of the BSP. This shows that the authorities have been jumpy and have occasionally overreacted to criticism from the opposition. For example, one of the UDF leaders, Hristo Bissarov, described BSP leader Purvanov as "a threat to national security"; "The BSP is Milosevic's... the BSP is a threat to the Government and unfortunately a threat to the State abroad, trying to incite anti-Bulgarian feelings in a neighboring country [Yugoslavia]" (interview in *24 Chassa*, Mar 31). "The BSP is trying to drag us into war" (Foreign Minister Nadezhda Mihailova in *Demokratiya*, Mar 31).

With the time, toward the end of the war, the dailies with the largest circulation *Troud* and *24 Chassa* gradually evolved into a more balanced approach (but not a more moderate language), publishing the opinions of both sides, while the attitude of *Monitor* and *Douma* remained unchanged.<sup>3</sup>

The views of prominent Bulgarian intellectuals on the Kosovo conflict and Bulgaria's position are of particular interest here. Opinions against NATO campaign and the Bulgarian Government's support for it by far exceed those in their favor. For example, the writer Viktor Paskov wrote in *Monitor*: "This is prostitution. We whine for guarantees, which we are denied... We whine for money, but this money will come only if we sell our body and soul."<sup>4</sup> The main argument behind most of these statements is a moral one, which makes this stand very attractive to the popular mind. Bulgarian ordinary people's natural fear of and disgust for violence and war are excellent ground

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<sup>3</sup> Ibid.

<sup>4</sup> *Monitor* newspaper, Apr 29, 1999

for this type of arguments, which have definitely helped cultivate anti-war and anti-NATO attitude among the Bulgarian public. Notably, however, most of these stands show awareness of Bulgaria's limited options as part of the tragedy of the whole situation.

In time, the aspect of limited options develops into increasing awareness of the alternatives with the help of statements by politicians from the ruling majority and (at the beginning less frequently) by intellectuals and public figures, who express - in one way or another - support for NATO and the Bulgarian Government. According to the writer Lyuben Dilov, for instance, "the Balkan Peninsula may cease to be a European hotbed of conflict... But this is obstructed by Pan-Serbian chauvinism... Pan-Serbian chauvinism has instigated four wars in the past eight years."<sup>5</sup>

While from time to time *Standart News* and *Demokratiya* make up for the deficit of positive "home" messages with numerous reproductions of foreign articles.

Interesting and symptomatic issue is how NATO military campaign affected NATO's image in the Bulgarian public and media.

NATO air-strikes against Yugoslavia had given vent to the dissatisfaction, suppressed over the previous two years, of the more conservative part of the Bulgarian public with Bulgaria's commitment to NATO announced at the beginning of 1997. The change in the political situation in 1996-1997, when BSP lost its power and influence, imposed a moratorium on the expression of serious reservations to NATO, which was obvious from the house policies of dailies such as *Douma*, (*Sega* and *Monitor* started coming out in autumn 1998). In the course of the war in Yugoslavia, the anti-NATO

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<sup>5</sup> Standart News, Apr 29, 1999

sentiments in these dailies escalated to the point of hysteria, presenting NATO as the main threat to peace. Growing anti-NATO feelings might also be observed in *Troud* and *24 Chassa*.

The resurrection of the image of NATO as an aggressor among large groups of the public and in the press placed the pro-Atlantic and Pro-European part of the Bulgarian public in an extremely delicate situation. While critics of NATO and the West prevailed in most dailies, with few exceptions (*Standart News* and *Demokratiya*), the advocates of the Allied campaign were hardly discernible against the general critical background.

First there was the image of NATO and the West (mainly the US) as an aggressor and killer of innocent people. This image was consolidated by daily reports of destruction and civilian casualties. However, the thesis of NATO as a destroyer of democracy was the strongest from a moral point of view. According to this thesis, with its actions in Yugoslavia NATO actually destroyed the fragile democratic tendencies that emerged after the devastating civil wars in the former Yugoslavia, and placed the opposition against Milosevic in an extremely difficult situation. There is also the thesis that NATO attacks are strengthening Milosevic's dictatorial regime ("NATO Crucifies Democracy in Serbia," *Sega*, Apr 29), as the Serbs were obviously rallying around Milosevic: "The air raids have set the course towards democratization of Yugoslavia decades back... The incumbent regime has only been strengthened by the NATO attacks against Yugoslavia because of the natural reaction of a nation to unite under the state banner in times of foreign aggression... The democratic forces in Serbia have been weakened, and the democratic reformist Government in Montenegro has been imperiled by the Allied bombing. And now they are between the hammer of NATO and the anvil of Milosevic's

regime" (*Sega*, Mar 29th). Such point was quite reasonable: yet in the first days of NATO's intervention Milosevic's government stopped the broadcasting of the popular only opposition radio B92 and got rid of the main opposition leader Vuk Draskovic pushing him out from his ministerial seat.

Arguments that the real motive for the strikes are Washington's ambitions to become the uncontested world leader, that NATO violates international law and its own statutes, that it is trying to replace the present world order by one of its own making, that it is helping the KLA, that it is double-faced, etc., prevailed in commentaries and analyses (especially in the pro-Serbian dailies). Against this background, positive views of the role of NATO and the West sounded much weaker. In time, these views have increased, but it is only towards the end of April that they emerged as a stable alternative to the flow of anti-NATO interpretations.

#### **B. THE POLICY OF THE BULGARIAN GOVERNMENT TOWARDS NATO AND THE DOMESTIC POLITICAL CLASHES OVER THIS POLICY**

As early as 1990 the political and intellectual circles close to the UDF (in opposition at that time) created the Atlantic Club that did a great job in popularizing NATO and changing its image among the Bulgarian public. The end goal of the club was Bulgaria joining NATO. In the course of all the past decades these efforts faced a strong resistance dominated by the BSP (the former Communist Party). The obstacles created by the BSP and the reluctance of its governments hampered to a great extent the Bulgarian steps towards NATO membership. All the Bulgarian governments dominated

by UDF have lead a consistent, steady and desperate pro-NATO and pro-United States policy despite the strong opposition of the BSP, and despite of all the disappointing signals sent by the NATO leaders. When the UDF in a very dramatic way took the power from the socialists, it inherited highly aggravated relations with NATO officials. A lucid manifestation of the negative attitude was the United States demand and pressing on the Bulgarian government to scrap its SS-23 tactical missiles and to withdraw its troops from the southern border with Macedonia and Greece, to the rear behind Blagoevgrad. Certainly, the government rejected this humiliating demand, which in fact implied depriving Bulgaria of any real guarantees for its security: without its own effective defense, on the insecure Balkans, and outside NATO's umbrella.<sup>6</sup> By the beginning of the war in Kosovo, for two years in power the governments of the UDF managed to make up to a certain degree the lag and to bring Bulgaria closer to NATO. The resolute and risky position of the Bulgarian government during the conflict in Kosovo ensured one of the most significant moves of the country towards NATO and EU membership.

As early as March 16<sup>th</sup>, 1999 the Prime Minister Ivan Kostov told the Bulgarian Parliament that the Kosovo crisis affects Bulgaria's national security because of the immediate vicinity of the region. In that speech, nearly two weeks before the beginning of NATO campaign, he also declared that Bulgaria would support the deployment of an international peacekeeping mission in Kosovo. Bulgaria is ready to participate in such a mission under NATO command, noted the Prime Minister, adding that if Belgrade would continue to object to a NATO peace-keeping mission and if NATO is forced to mount an

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<sup>6</sup> "United States Pressure on Bulgaria Backfiring." *Global Intelligence Update Stratfor*, available in the Internet at: <http://www.stratfor.com/services/giu/072897.asp>

operation without Yugoslav consent, the government will use the mandate approved by the Parliament in October 1998 to allow NATO air forces to use the Bulgarian airspace.<sup>7</sup> During that time RFE, quoting domestic sources reported that Bulgarian-NATO preliminary talks about Bulgarian "logistic support" for the transit of NATO personnel across Bulgarian territory took place on March 11th-12 th. Almost 3 months later, on June 2<sup>nd</sup>, a government official denied, but the behavior and the statements of the Bulgarian Prime Minister and of the members of the government in March-April showed that such talks probably have taken place indeed.

In April the Parliament of neighboring Romania denied granting air corridors for NATO military aircrafts, despite that the opposition socialist party generally supported Romanian membership in NATO. On the contrary, the Bulgarian ruling majority turning its back to the vicious resistance in and outside of the Parliament and to the media campaign got what it expected: on May 5<sup>th</sup> the Bulgarian parliament, after long and hot (but in vane) debate officially agreed to grant NATO aircrafts the right to use the Bulgaria airspace for strikes against Yugoslavia. Outside the building of the Parliament, thousands were rallying for and against the decision.

During the debate in Parliament one of the leaders of the BSP, Alexander Lilov, was explicit: "This Balkan war is illegal, ineffective and destabilizing (for the region). Bulgaria should clearly say it is against this Balkan war because the Balkan problems will not be solved by military means."

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<sup>7</sup> *Bulgarian Premier Urges Kosova Settlement*, Radio Free Europe, Mar 17 1999, available in the Internet at: <http://www.rferl.org/newsline/1999/03/170399.html>

The argument of the Foreign Minister Nadezhda Mihailova was that those who vote against granting NATO access to Bulgaria's airspace, apart from the moral issue of silent complicity, would vote for prolonging the conflict and against a united Europe. "Such a vote will erase Bulgaria from the economic and political map of Europe." Lilov replied that a vote to grant NATO access would not necessarily lead to "a quick admission to NATO and the European Union." He warned that after the Balkan war is over, Bulgaria's case could well become forgotten, even possibly weakening its regional position.<sup>8</sup> Alexander Tomov, leader of the Euroleft's (left-centrist parliamentary party, which voted against NATO's access to the airspace) declared the position of his party: Bulgaria "should preserve and maintain its European and Euro-Atlantic choices, though, at the same time, we think that (Bulgaria) should not become involved, directly or indirectly, in the war."<sup>9</sup> A month earlier the BSP leader Purvanov stated, "Our position should be similar to that of Italy - non-interference, interruption of war operations and re-establishment of political dialogue."<sup>10</sup>

Many Bulgarians believed and still believe that this parliamentary vote was a post-factum formal act, and that in fact NATO bombers had already flown over Bulgaria. The government furiously denied this. One of the most dramatic parliamentary discussions was on this issue. It took place on April 2nd, more than a month before the official approval of NATO's flights. The Prime Minister rejected the accusation by the

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<sup>8</sup> Weydenthal, Jan and Stoyanka Kancheva, *Yugoslavia: Bulgaria Grants NATO Access To Airspace – Grudgingly*, RFE, May 5 1999, available in the Internet at: <http://www.rferl.org/nca/features/1999/05/F.RU.990505131309.html>

<sup>9</sup> Ibid.

<sup>10</sup> <http://www.aimpress.org/dyn/trae/archive/data/199904/90410-001-trae-sof.htm>

socialist leader Purvanov that the government, violating the constitution, had approved NATO air-flights over Bulgaria. The later replied, "One of us is a liar – either I, or the Prime Minister, or Solana," quoting a letter to the Premier Kostov, in which Solana thanked Bulgaria for the approved use of its air-space. As usual, the government overreacted. The minister of internal affairs Bogomil Bonev warned openly, "Anybody who is engaged in spreading lies that we have approved the air corridor or in any way attacked Yugoslavia, that we have taken hostile action against Yugoslavia, shall come under the jurisdiction of the criminal law which prescribes 5 to 15 years in prison for treachery of national interests."<sup>11</sup> A few hours later, the Counter-intelligence Service and Ministry of Internal Affairs appeared with official warnings that spreading lies about approved use of the air corridor of Bulgaria was a provocation against the state and that their authors could be taken to court. The two government departments warned all the citizens to refrain from provoking anti-Bulgarian disposition in Yugoslavia.<sup>12</sup>

However, NATO's HARM missile that hit a house in Sofia suburb proved the opposition's suspicions (along with a series of other evidences). The explanation by a NATO official that NATO aircraft launched the missile flying over the Yugoslav territory contradicts with the technical data. According to the consultation we made with a specialist from the Bulgarian Air Forces one day after the incident, the trajectory and the speed indicated that the missile could only have been unleashed by a plane within 25-miles radius, i.e., inside Bulgarian air space. The Bulgarian officer supposed that the Bulgarian anti-aircraft forces radar lighted only for few moments the aircraft over the

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<sup>11</sup> Ibid.

<sup>12</sup> Ibid.



Bulgarian territory. The pilot reacted immediately launching the missile toward the radar, but as the radar was turned off and the missile losing the target hit gone astray and hit the house. The Bulgarian anti-aircraft forces probably did not have in disposition the identification codes of the U.S aircrafts and this paradoxical situation led to the incident.

The final accord of the Bulgarian support for NATO military campaign, surprising many observers, as well as the Russian government, was the blocking of Russia over flights to Yugoslavia at the end of the war in the first days of July. "Bulgaria will consider requests from Russia for over flight of its aircraft as part of KFOR after a full agreement is reached on the technical details of the implementation of the Helsinki agreement," Foreign Ministry spokesman Radko Vlaikov said. He stated "an agreement should be reached on article four of the (Helsinki) accord, which stipulated the use of the airport in Pristina could be only under the orders of KFOR General Commander Lieutenant-General Mike Jackson"<sup>13</sup>. Meanwhile, Washington and NATO have asked Bulgaria, Romania and Hungary to refuse Moscow's over-flight requests.

During the whole campaign the government and the ruling majority defended its policy against the domestic critics with the argument that backing NATO's policy offers Bulgaria better prospects for the future, and that such a policy is the only chance for Bulgaria to make up the lag and to complete its strategic purpose: to join EU and NATO and to become a part of Europe. Indeed, in all their contacts and negotiations with NATO's and Western leaders Bulgarian President, Premier, Foreign minister and all government officials emphasized Bulgarian will to join NATO and EU, and repeatedly

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<sup>13</sup> <http://www.chinadaily.com.cn/yugo/crisis/m705p10.htm>

and openly made a clear link between the Bulgarian support and Bulgarian expectation for acceleration of the procedures for membership.

In April 1999 Bulgarian President, Petar Stoyanov, probably was the first one who promoted the concept of a Marshall Plan for Southeastern Europe and suggested easing or rescheduling debts for countries bordering the Federal Republic of Yugoslavia (FRY). Stoyanov appealed Europe to outline a vision for Southeastern Europe beyond the scope of the present conflict in Kosovo. He advocated an international solution not only for the Kosovo crisis but also for all regional issues. Bulgarian President urged a "broad investment program" backed by the governments of Western Europe and the United States. He also said that a greater integration with Europe is the answer to the "historic shadows" of ethnic rivalry and the legacy of communist rule plaguing Southeastern Europe. "We cannot and should no longer seek regional solutions only," said Stoyanov. These problems are "inevitably a part of the rest of Europe." <sup>14</sup>

However, despite the fact that the government policy regarding NATO intervention in Yugoslavia finally to a certain degree has justified its purposes, the way in which incumbents conducted it was highly questionable. The style of the government decision making on this issue and its relations with the public contradicted in many aspects with the style, the traditions, and values of the western democracies. In this context some of the blames by the spokesmen of the opposition had certain point. They regularly pointed out as follows:

The lack of consultations in the country

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<sup>14</sup> *Bulgarian President Speaks On Kosovo, Euro-Atlantic Ties* (Press Briefing by Bulgarian President Stoyanov), United States European Command, Apr 26 1999, available in the Internet at: <http://www.eucom.mil/europe/bulgaria/usis/99apr26.htm>

The failure to provide for any proper parliamentary debate before key decisions on NATO access to the air space was granted

The dishonesty of all those politicians, who denied that such a request had never been made by NATO in the first place. For example, on March 9th the Government denied that it had been approached over the question of NATO over-flights. Even on April 5th the United States Deputy Secretary of State, Strobe Talbott said that NATO had not asked Bulgaria for the use of its air space nor did it have any plans to do so in the future.

One of the striking examples of the incumbents' attitude toward the public was the fact that the Prime Minister even contested the reliability of public opinion polls (showing that the majority are against NATO strikes in Yugoslavia). This gave a good occasion to the daily *Monitor* to bite him with the generalization "A Prime Minister does not need public opinion polls to know what the people in his own country think." (Apr 8)

Probably without such a style of policy, because of the strong domestic opposition the Government would not be able to ensure Bulgarian support for NATO air strikes. This could explain, but barely can justify the government style of decision-making on such crucial issues. However, any western Government could hardly act in this way in a similar political and public environment without loss of its power.

## **C. POLITICAL CONSEQUENCES FOR BULGARIA**

### **1. Domestic Political Consequences**

Undoubtedly the support of the ruling majority for NATO air campaign resulted in certain decrease of its popularity. In the same time the war provoked awakening of old anti-NATO attitude in certain circles, and especially in the BSP and its electorate. During more than two years of the UDF rule that attitude had almost disappeared from the public space and existed latently. A similar trend of increasing negative attitudes we can see in the new NATO members in Central Europe, and even in such an old NATO Ally like Greece. This should be an important and symptomatic signal for the future NATO policy in the area, as well as its policy toward UN Security Council and toward Russia.

However, the events after the end of the war: the political gains that Bulgaria received and the attention that it got from world's leaders like Clinton and Blair led to a certain recovery of the image of the Bulgarian government and NATO. The temporary decrease of the popularity of the UDF government at that moment did not create serious threat for its power, as there was no other political force capable to take power and to rule the country. The main opposition party, the BSP still has bad image and low popularity after its catastrophic political and economic failure in the dramatic winter of 1997 when it was forced to accept extraordinary Parliamentary elections and reluctantly abandon power before the elections.

If there is something that really decreased the popularity of the UDF government, it is not so much its pro-NATO policy during the military campaign, than the non-democratic, secret and anti-public way it conducted this policy: lack of transparency,

inadequate reactions, inadequate and incompetent information policy. A proof to this point is the present situation the Government is in. Now it is in the lowest point of its popularity, despite that the public recognized the obvious success of the main purpose of its backing NATO intervention – to attract the attention and the favor of Europe and the United States, and to increase the Bulgarian chances for EU and NATO membership. The reason for this state of the matters is again the same: the non-democratic style of governing, the series of public scandals about corruption of ministers, high government officials, and leading figures of the UDF. The Prime Minister was forced to make significant personal changes in his Cabinet. But he made them in the same non-transparent way, almost without any explanation to the public of the true reasons for these changes. Unfortunately, the public generally knows the reasons: corruption is shaking the government at all its levels. Because of this the popularity of this Government continues to scroll down, and the reactions of the incumbents are becoming more and more hysterical, seeking everywhere plots and evil scenarios.

## **2. International Political Consequences for Bulgaria**

The resolute and risky support for NATO military campaign by the Bulgarian government indeed attracted to the country an unprecedented attention of the leaders of the main Western powers. All they repeatedly asserted that they will support the Bulgarian application for NATO membership. The procedure for EU received a sensible push forward. Bulgaria (together with Romania) was mentioned in the list of the serious candidates for the next round of NATO enlargement. For the first time in the Bulgarian history the United States President visited the country and gave it promises for broad political and economic support. One of the new initiatives, namely the Stability Pact

gave new chances for development of the country's infrastructure and its connection with Europe. A whole list of United States initiatives for financial aid for Bulgaria has occurred.

However, despite the demonstrated interest and good will toward Bulgaria, the main objective obstacles on the way to membership in EU and NATO remain and could be solved only by the Bulgarians and their government. Those are problems in the field of economic, structural and law reforms, problems related to ineffective (and not-working) economy, government, administrative, and judicial structures. One of the major problems that is very particular within the framework of the Stability pact – the problem with the corruption of the government structures, recently turned out to be the most actual and most dangerous for Bulgaria. Because of the series of scandal reveals of corruption among the members of the Bulgarian Cabinet and the top government agencies, recently the EU showed increasing reserves in regards to Bulgaria. One of the main and most dangerous issues is the corruption related to the privatization. For years, despite the clear and well-addressed critics, the incumbents showed reluctance to change the non-transparent and unclear system for selling the biggest Bulgarian assets. There is almost no big privatization deal without scandals, suspicious leaks of information or sudden change of the chosen purchaser. It was not by accident that most Bulgarians referred to, the Minister responsible for the privatization contracts, as “Mister Ten Percents.” This policy turned into the major obstacle for the foreign investments and the structural reform of the economy.

So, Kostov's Government is on the way to misspend the actives it gained with its risky policy. What is disappointing the Bulgarian public now is disappointing for the European officials as well.

NATO's intervention resulting in breaking the territorial status quo and the sovereignty of Yugoslavia established a dangerous precedent that threatens the future stability and peace on the Balkans. Encouraged by the success of KLA in Kosovo, the growing population of Albanians in Macedonia, whose organization conducts a firm and offensive policy, might provoke violence throughout this country, ending up into a civil war. These fears are well formulated by the Macedonian analyst and politician Lyubomir Frachkovski in his article with the eloquent title "Stability Pact and the Problem of Ethnic Nations."<sup>15</sup> A war in Macedonia can ignite a larger Balkan war, since in the course of this last century Macedonia has been the core of all the Balkan wars. Such upheavals are mostly risky for Bulgaria as compared to the other countries in the region due to its historical and cultural connection with Macedonia.

The bad thing is that for the time being the Stability Pact much more looks like political and propaganda efforts. It is rather a bureaucratic activity without any contents, than real financial aid and real steps aiming at settling the problems on the Balkans. Before the beginning of this summer, the EU members and the United States denied to take any responsibility and to fund the cleaning of the Danube and to restore floating on the river. While countries like Bulgaria continued to endure heavy losses because of this, the EU shifted the responsibility for this operation on Milosevic, knowing very well that

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<sup>15</sup> <http://www-us.capital.bg>

Yugoslavia is not capable of accomplishing this task.<sup>16</sup> In that aspect the Bulgarian Foreign Minister Nadejda Michailova recently addressed delicate critics stating that nearly one year had passed after the Balkan Stability Pact was launched and the time has come "to transform the pact's long term vision into concrete policy."<sup>17</sup>

The resolute support of the Bulgarian Government for NATO intervention in Yugoslavia and the fact that Bulgaria refused the Russians to use its air-space was interpreted by the politicians, public and media in Russia as a hostile act against Russia. Most probably this will have a long-term negative effect on the Russian- Bulgarian relations. These relations are still very important for the country, at least the economic aspect of the issue. By 1989, when the transition started the trade with the former Soviet Union was about 80 percents of the total Bulgarian external economic exchange. During the 1990s the share of the trade relations with Russia decreased, but this significant downfall was not compensated by a corresponding increase of the trade with other nations. A certain increase of the trade relations with the EU countries, Turkey and the United States occurred, but it was one-sided and led to significant passives in the external trade balance of the country. In fact, the decrease of the trade relations with Russia led to worsening of the economic performance of Bulgaria. The country lost the huge Russian market for food, tobacco products, wines, electronics, forklifts, and so on. Most of the economic sectors that were earlier directing their production to the Soviet market, collapsed. The Bulgarian Armed Forces and the Bulgarian Arms Industry also suffered

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<sup>16</sup> *EU, NATO Stalling on Danube Clean-up, Global Intelligence Update Stratfor*, available in the Internet at: <http://www.stratfor.com/CIS/specialreports/special7.htm>

<sup>17</sup> *Bulgarian Foreign Minister in Washington*, RFE, 10 March 2000, available in the Internet at: <http://www.rferl.org/newsline/2000/03/4-see/see-100300.html>



damages because of its dependence on Russian supplies. The worst case was and still is in the field of energy, since Bulgaria is almost one hundred percent dependent on the supplies of Russian oil and gas. Russia used this dependence as a tool to press the Bulgarian government and even influence its internal policy. In 1997-1998 the Russian economic empire Gasprom humiliated the Bulgarian UDF Government, put it on its knees, and forced it to accept the mediation of a Bulgarian semi-mafia economic group in supplying Russian gas. A number of times in the midst of winter Russia refused to supply oil for the biggest Bulgarian refinery cornering the country and its Government.

Though the relations between the two countries were aggravated, soon after the war began the Russian company Lukoil privatized the biggest Bulgarian refinery. In fact Lukoil was aiming at that long before the war. They used all forms of pressing, connections in the financial and political elite, and all kinds of arguments, including the refinery's debts to Lukoil in pursuit of their goal. Anyway, it is a fact that the Russian ownership of the refinery increases Bulgaria's vulnerability from the Russian oil policy.

The only way, for NATO and the EU to establish unchallenged influence in Bulgaria, and to decrease the possibilities of Russia to interfere, is to diminish the country's dependence on Russian energy supplies. First of all this means giving the country the chance to receive Iraqi oil supplies as a way to liquidate Iraq's debt to Bulgaria; investment in the building of new refineries, able to work with Iraqi oil, etc. A quite good solution and an adequate award for the Bulgarian support could also be the building of an oil pipeline for delivery of Caspian oil to Europe, starting from Burgas (Bulgaria). Regretfully, quite recently the idea about a project like this was given up time

and again, most probably in favor of a Turkish pipeline. Although Bulgaria supported NATO military intervention, the country was left vulnerable and helpless against any possible Russian economic and political pressure and probable Russian economic revenge.

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### III. FORECASTS AND EXPECTATIONS FOR THE INFLUENCE OF THE WAR IN YUGOSLAVIA ON THE BULGARIAN ECONOMY

By pounding away at the Yugoslav President Slobodan Milosevic, NATO had worn down not only its enemy but also some of its friends, Europe's poorest states. The air raids on Yugoslavia had indirectly battered the countries in Eastern and Central Europe, destabilizing their export, tourism, river trade, and investments. Vital for the national development funds were diverted to help ethnic Albanians fleeing from Kosovo.

Being seriously concerned for the economic impact of the Yugoslav War the governments of the Balkan countries alarmed NATO's leaders, the IMF, and the World Bank. In the course of the war a great number of researches, estimates and forecasts for its economic consequences were conducted by these international institutions as well as by experts from the Balkan countries.<sup>1</sup> In Bulgaria a number of independent experts, institutions and economic journalists also made their own analyses and interpreted the official prognoses.<sup>2</sup> Some Western journalists and experts also analyzed the economic risks that the war can cause to Bulgaria.<sup>3</sup>

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<sup>1</sup> IMF, *The Economic Consequences of the Kosovo Crisis: An Updated Assessment*, May 25, 1999, available in the Internet at: [http://www.europa.eu.int/comm/dg1a/see/imf\\_25\\_may\\_99/index.htm](http://www.europa.eu.int/comm/dg1a/see/imf_25_may_99/index.htm)  
IMF and World Bank, *The Economic Consequences of the Kosovo Crisis: A Preliminary Assessment of External Financing Needs and the Role of the Fund and the World Bank in the International Response*. April 16, 1999, available in the Internet at: <http://www.imf.org>  
*Economic Consequences of the War and Reconstruction in South-Eastern Europe*. The North Atlantic Assembly Report, NATO Economic Committee, 24 June 1999, available in the Internet at: <http://www.naa.be/publications/comrep/1999/as120ecew997-e.html>

<sup>2</sup> Stanchev, Krasen (Director of the Institute for Market Economy in Sofia) "Influence of Yugoslav War on Bulgarian Economy." *Capital Press*, Sofia, 5/5/99, available in the Internet at: <http://www-us.capital.bg/weekly/99-16/32-16-1.htm>

Alexandrova, Galina "War in Yugoslavia Accelerates Problems in Bulgarian Economy." *Capital Press*, Sofia, 4/17/99, available in the Internet at: <http://www-us.capital.bg/weekly/99-13/15-13-1.htm>

Now, a year after the beginning of the war and almost 10 months after its end, the serious gap between these forecasts and the postwar economic realities is obvious (at least in the Bulgarian case). The forecasts were much more pessimistic than the real outcomes turned out to be. What caused that serious difference? Should we blame the economic experts for it? To give an answer to these questions we should analyze not only the estimates, comparing them to the real economic process, but also the circumstances and the factors, which influenced these prognoses.

#### **A. FACTORS, INFLUENCING THE INITIAL ECONOMIC FORECASTS AND EXPECTATIONS**

These estimates were shaped and influenced by a number of subjective incentives and objective factors. Although the objective factors mattered mainly, the subjective incentives and attitude were not of minor importance.

##### **1. Domestic Subjective Attitude and Motives**

###### **a) *The Bulgarian public attitude towards the economic sanctions***

Initially, the Bulgarian public associated the economic impact of the war mainly with the impact of the embargo against Yugoslavia. On April 28<sup>th</sup> the Foreign Ministers

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Alexandrova, Galina "Embargo Bulgarian Style." *Capital Press*, Sofia, 5/13/99, available in the Internet at: <http://www-us.capital.bg/weekly/99-17/32-17-1.htm>

<sup>3</sup> Clack, Albert "Kosovo crisis threatens Bulgarian economy: Prime Minister accuses Serbs of destabilization." *Emerging Economies Portfolio* 1 April 1999, available in the Internet at: <http://www.emergingeconomies.net>

Bennett, Peter "The Danube Blues: Kosovo conflict exacts a high toll on region's businesses." In: *The Wall Street Journal. Interactive Edition*. May 31, 1999, available in the Internet at: <http://interactive.wsj.com>

Matloff, Judith "Kosovo war has broad economic implications for Europe." April 28, 1999, available in the Internet at: <http://www.nandotimes.com>

of the European Union (EU) countries unanimously voted to stop the deliveries of oil for Milosevic's regime and to increase the pressure on Yugoslavia's trade. The EU imposed an economic embargo - from turning down the oil pipeline supplying Yugoslavia, to a restricted traveling regime for high-ranking officials and businessmen, related to Milosevic's Government as well as fining those suppliers, spedition companies and bankers making deals breaking the ban. Bulgaria was the first one to ban the trade with Belgrade. With Government decree N80 the export of oil, liquid fuels and a great variety of chemical products to Yugoslavia was banned. By then there was only an arms embargo, in compliance with Resolution 1160 of the UN Security Council. "The Cabinet simply copied the table of chemical elements adding all chemical compounds that the Ministers could think of and then banned them for export - that is the Bulgarian embargo. If any element was missed, this was because they were in a hurry. In fact the government decree is related to all the chemical elements," chemical experts said.<sup>4</sup>

The association of the war with an economic embargo gave rise to pessimistic sentiments, because of the attitude of the Bulgarian public towards economic sanctions in general. In the past decade Bulgaria participated in a series of economic sanctions, which seriously affected the national economy. The most extreme example is the continuing embargo against Iraq, making it impossible for this country to clear off a debt to Bulgaria, amounting to \$1.6 billion. An amount like that is of great importance for Bulgaria, a country with \$30 billion GNP, and a backbreaking foreign debt of \$9 billion.

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<sup>4</sup> Alexandrova, Galina "Embargo Bulgarian Style." *Capital Press*, Sofia, 5/13/99, available in the Internet at: <http://www-us.capital.bg/weekly/99-17/32-17-1.htm>

In addition to all that, Bulgaria is in a humiliating dependence on Russian oil supplies, while at the same time the Iraqi debt has to be paid with oil.

***b) The motives of the ruling politicians and the government officials***

When the Bulgarians hear the word embargo, they normally start calculating. In case like that a big part of the Bulgarian officials are mainly occupied with calculations and announcing the results on a daily basis. These figures can hardly be considered accurate, since too many factors have to be taken into account when determining the exact amount of the losses. The general impression is that the assessment of the losses is quite arbitrary and often there is a big difference in the expert analysis and the figures given by the state officials. The incumbents obviously try to use the embargo as an excuse for the failure of the reform and the mistakes in their economic policy. Suffice to look back a few years ago, when the head of the Agency for Economic Programming and Development, Ventsislav Antonov, was fired because the agency's report on the economic situation in Bulgaria in 1993 claimed that the embargo was in fact favorable for the Bulgarian economy, although it was strongly linked to gray economy.

Looking for domestic support, the Cabinet generated and overused the idea of compensations. "All the collected data concerning the losses we underwent will allow us to ask NATO and the European Union for compensations," the Transportations Minister Wilhelm Kraus said. All the claims that the Bulgarian support for NATO will be taken into consideration and rewarded with a compensatory package sound naive in the context of all the previous experience - the international institutions are not so generous and in recent years the Bulgarian diplomacy showed that it is much better at losing rather than winning advantages in international negotiations. However, the Bulgarian officials

requested loans from the IMF in order to compensate for the lost revenues, which they claimed were averaging \$1.5 million a day in the course of the war.

## **2. The Evolution in the IMF Position and Its Incentives**

Initially, the IMF officials reacted in a typical for this institution manner. The IMF mission chief for Bulgaria, Yuha Kakhonen, said that Bulgaria couldn't rely on aid, provided by the fund.

Nevertheless, the IMF changed its attitude and shortly after the outbreak of the war it presented A Preliminary Assessment of External Financing Needs and the Role of the Fund and the World Bank in the International Response (April 16<sup>th</sup> 1999). The document stated the need for discussions with officials from Croatia, Bulgaria, and Romania "to determine the modalities of the Bank support in response to the crisis." Soon after that, on April 23<sup>rd</sup>, the IMF in coordination with the World Bank worked out an assessment (EBM/99/48) of the economic impact with concrete figures for the necessary financial aid. On May 25<sup>th</sup> a new updated assessment was issued, where the figures were significantly increased. At this time according to the World Bank estimates the war was costing the region at least \$1 billion in collateral damage and lost trade. In compliance with the assessments of the Western donors the rebuilding of the region after the war could cost up to \$30 billion or more.

This evolution in the attitude of the international financial institutions could have been partially caused by powerful political influence and pressure, but most of all it was a result of the frustrating immediate effect of the war during its first weeks.

The traffic on the mighty river, meandering 2,850 kilometers across Central Europe and the Balkans before reaching the Black Sea, had stopped since the end of



March, when NATO began bombing. Six bridges that spanned the Danube between Vukovar, Croatia and Turnu Severin, Romania lied as tangled wrecks in the water.

Much of the trade losses are incurred by the countries, which main transportation routes once passed through Serbia. Prior to the war, for instance, Bulgaria transported about 65% of its exports along the Danube. In April alone, the Bulgarian companies spent an estimated \$8 million in re-loading their goods onto trucks and railroad cars. Macedonia and Croatia, for which Yugoslavia is a key export market, were also vulnerable.

The Bulgarian logistics company Econt Trans, is a typical example of the devastating situation in April 1999. It normally arranges river transportation for 100,000 tons of iron ore, 20,000 tons of steel products and 10,000 tons of chemicals from Bulgarian ports to customers in the West each year. "As you can imagine, it is difficult to arrange alternative transportation for 20,000 tons of steel in a couple of days," says Tihomir Tiholov, the Manager at the company. "It will take may be two months to clear the Danube, then yet another one to re-establish the contracts we've lost."

The Bulgarian Prime Minister, Ivan Kostov, issued a warning that the economic risk for the country from the war in Yugoslavia is escalating. In a special address to Parliament after a meeting of the National Security Council, he said that by March 29<sup>th</sup> Bulgaria had already suffered direct losses about DM 11,500,000 worth from the interruptions in railway, air and river transportation (\$6,400,000). According to official statements, only the transportation losses until April 20<sup>th</sup> 1999 amounted to \$10,000,000.

Obviously, the situation seemed too devastating not only for Bulgaria, but also for the whole of Central and Southeast Europe. Therefore, facing the situation, and forced

by the complaints of the Governments of the countries in the region, as well as by the United States political pressure, the international financial institutions had no other choice but to adequately respond to and plan urgent measures. This turned out to be of crucial importance for the support of NATO policy in the area, and especially for its military intervention in Yugoslavia.

Bulgaria is of some additional importance for the IMF, because of its commitments in this country. During the 1990s as a result of its foreign debts the country lost much of its economic sovereignty and grew more and more dependent on the IMF programs and decisions. Bulgaria caused a lot of problems to the IMF in the course of the past decade. At certain points the IMF programs for the country were close to failure. As a result, in 1997 under the IMF pressure a currency board was introduced in Bulgaria. As the economic reforms and the economic policies in the country are under strict IMF control, their failure would be highly unacceptable, since it would be subsequently considered an IMF failure. Anyway, there are enough failures and severe critics of the fundamentals of the IMF policy seriously shattering the image of this institution.

According to the forecasts and expectations Bulgaria would suffer serious economic losses from the war in Yugoslavia (The country was classified in the second group of damaged countries). Bulgaria, which is undergoing structural reforms, for the very first two months of 1999 suffered approximately 18 % reduction in industrial sales in comparison with the same period of 1998. For Bulgaria the export losses from the Kosovo's crisis range between \$1 million and \$1.5 million daily. The expected losses were amounting to \$260 million average per month, in case the war continues longer. It was expected that in the second half of April, if the war would continue, the deficit would

increase with \$ 100 million by the end of May, and with \$300 million, if NATO air attacks do not stop by the end of the year.

A great number of subjective motives contributed to the pessimistic forecasts for the economic impact of the war. Despite all of them, the background for the pessimistic forecasts was external. All forecasts (IMF, NATO and domestic) were based on the real immediate impact of the war in April and May 1999, which was really threatening and destructive, and the character of the impact was quite obvious and undisputable.

The negative effect on the local economies during the first month of the war was so impressive and so frustrating that at the end of May 1999 it urged the main players on the international scene to summon a meeting in Bonn of eight of Yugoslavia's neighbors, key donors and pan-European and international organizations. Among them were the EU, the Organization for Security and Cooperation in Europe (OSCE), the Organization for Economic Cooperation and Development (OECD), the European Bank for Reconstruction and Development (EBRD), the West European Union (WEU), the European Investment Bank, the World Bank, the International Monetary Fund (IMF), NATO, plus Japan and Canada. The meeting discussed and worked out what was called the Stability Pact for Southeastern Europe, or much better described as a "kind of Marshall Plan" for the Balkans.

If the war would continue longer than six months its economic impact on the local economies would be really devastating. The problem with all the estimates was the extrapolation of all the devastating trends in the future. In other words, the main difficulty was to predict how long the war would last. This was the main uncertainty, causing in fact a gap between the forecasts and the real economic damages.

Facing this problem, the IMF assessments (as well as all other forecasts influenced by them) presented two scenarios differing in the assumed length of the crisis: prolonged disruption (Scenario A) and a quickly resolved crisis (Scenario B). For each scenario, these assumptions are uniformly much more pessimistic than in the first assessment in regards to both refugee numbers and the impact on trade.

Scenario A assumes that the number of refugees outside Kosovo will peak at over 1 million, about 100 thousand more than in the earlier assessment. In view of the estimated number of displaced persons in Kosovo, this assumption is obviously not the most pessimistic one. The majority of refugees are expected to stay in the six most affected neighboring countries during the remainder of 1999, with only a small proportion leaving for other countries. Reflecting the experience in Albania so far, a higher proportion of refugees is now assumed to reside with local families. For those not living with families, the associated humanitarian costs would rise sharply in the fourth quarter as winter approaches. As far as trade is concerned, Scenario A assumed that, in addition to no official trade with the FRY in the remainder of 1999, transit trade through FRY was blocked. In the earlier assessment, some modest possibilities for transit trade had been envisaged in the second half of 1999, but this would now seem inconsistent with the damage already inflicted to transit routes.

Scenario B assumes that all refugees will return home during 1999, but also assumes that the process will be prolonged. In the revised Scenario B (the version from May 25<sup>th</sup>), repatriation only begins slowly in late summer and takes most of the fourth quarter to complete. As a result, and factoring in a higher peak number of refugees, the average number of refugees in the six most affected countries in quarters two through

four is twice as much as in the original scenario. Trade opportunities with the FRY are also assumed to be more limited than before, with the Scenario allowing for the revival of direct and transit trade with FRY at only 50 percent of their pre-crisis levels in the fourth quarter.

As IMF experts predicted, “the likelihood that a significant number of refugees could begin to return home before the end of the summer (as it was predicted in the April’s assessments – D.R.) now (in May – D.R.) appears to be low.”

#### **B. IMF’S AND DOMESTIC FORECASTS FOR THE IMPACT OF THE WAR ON THE BULGARIAN ECONOMY**

According to the IMF updated assessments, provided the conflict is not settled by the end of the year, the effects for and the damages on the balance of payment for Bulgaria, would be as follows:

- Decrease of export at the amounting of \$250 million;
- Loss of one quarter of the expected incomes from tourism - \$100 million;
- Reduction of the incomes from transit and other travels - \$12 million;
- Increased travel expenses - \$12 million.

In May the negative economic trends during the war forced both the IMF as well as the Bulgarian Government to negotiate and to agree on revision of the projected figures of the national economy in the following manner:

1999 GDP growth projected prior to Balkan conflict	Revised GDP growth estimate	Expected 1999 drop in exports
0.5%	-1.5%	-10%

These figures became a part of the issued on May 25th IMF updated assessments of the cost of the war incurred by the Balkan countries.

The director of the Institute for Market Economy in Bulgaria, Krasen Stanchev, did one of the broadest and in depth forecasts for the impact of the war on the Bulgarian economy. Stanchev's estimates for Bulgaria were based on the basis of his general forecast about the length of the war and about the long-term ethnic political situation in Yugoslavia. He predicted that the war would be a long lasting one.

He also wrote:

"It is difficult to say how long the war will last, what is the possibility for different post-war scenarios to take place, whether there will be another war (in any sense of the word). The short-term estimates of the war's effects are hampered by factors simply rooted in the countries themselves preventing the compatibility of the offered goods and services. The possibility of the war being short is thought of as being an equally big wonder because this would mean that the Serb government would accept the requirements of the Rambouillet agreement."

Stanchev further assumed, "it is more likely that the war continues for a long time. It is possible that the war will continue with certain interruptions for a time between 6 months and 2-3 years." According to him, there will be periods of halted military actions and within these periods the warring parties will prepare for their next step towards a satisfying solution of the crisis.

This pessimistic picture is based on the theoretical analysis of the basic reasons for the ethnic clash and the humanitarian catastrophe in Kosovo. They came as a result of the ethno genetic processes on the Balkans. The reasons for the outbreak of the war

must be sought in the establishment of the nation-states in the region - a process that in other parts of Europe took place between XVII and XIX century. According to Stanchev, this process is currently under way in Albania. (In fact, the national revival and the rise of the Albanian national consciousness started in the beginning of the XX century.) Yugoslavia, led by Milosevic and based on the Serb identity in the country and abroad, is protecting its national pride and territory. At least, this is what the people and politicians in Belgrade are trying to suggest. Macedonia, which recently won its independence, faces the challenge of protecting itself. Most probably, in the near future Montenegro will also endeavor to form an independent state. Needless to say whatever the nation's goals are, they are a poor excuse for the genocide and the ethnic cleansing. The problem is that it is difficult to uproot the memories of past violence when there is no unified view for a joint future and prosperity.”

Obviously, when Stanchev was estimating a long war, he had in mind not only the concrete war in Kosovo, but also other future wars in Yugoslavia in general. That is why he concentrated on the worst scenario.

In 1998 Bulgaria joined CEFTA and the expectations were that the trade with the Central European countries would increase twice. In December 1998, the trade with the countries in the region was 5.4 percent of the total trade, which means 51 percent increase for that year. It was expected that the war would most probably be an obstacle for this tendency to continue. Stanchev also wrote that the worst scenario for the development of the crisis was taken into account and this would serve as a starting point to build up a realistic picture of the short-term influence of the crisis on Bulgaria.

Stanchev's predictions for a short-term influence included:

- Cutting off the trade with the West
- Lack of new commercial routes
- Lack of revenues from foreign trade and transport.

The amount of Bulgaria's export for the EU, CEFTA and EFTA countries is 55.4 percent of the total one. The relative share of import from the same countries is 52 percent. In the last four years the Bulgarian export depends about 80 percents on its import. In this case, the worst scenario means \$2 billion deficit on the current account

According to the author, the immediate effects must be sought in the following sectors:

- Increased transportation expenses
- Loss in revenues from tourism
- Loss of markets
- Decreased foreign investments
- Additional expenses, related to accepting refugees

From the afore-mentioned immediate effects, the easiest thing to do was calculation of the expenses related to the refugees. The increased transportation expenses could also be defined to a certain extent, while the losses in tourism were hard to be calculated. Furthermore concrete figures assessing the loss of markets cannot be mentioned. For sure the problem with foreign investments had to be considered separately.

In compliance with the conventions signed by the country it had to accept 5,000 refugees. The total expenses, calculated by the newspaper "Cash" amounted to



approximately \$582,000 per month, which was 0.1 percent of the nominal GDP for 1999.

Nevertheless, accepting such an amount of refugees would pose very small risks.

According to the expectations the biggest and the most significant losses would be in the sphere of transportation. For a very long time already the Bulgarian firms were active on international transport markets. Due to the fact that these companies were competing on the international market until 1989 they were operating much more efficiently in comparison to the companies in other sectors. That is why the transportation companies adapted to the market shocks in the 90s much easier and without considerable losses.

During the war in Kosovo the situation was totally different - we witnessed the physical closure of Yugoslavia (when the UN embargo trucks passed through the territory of the country thus saving time and fees). Navigation on the Danube was very difficult. The direct railway losses are constantly accumulating and will be soon calculated. The trains were still going through Yugoslavia, but with big delays and almost empty.

Many airways moved on to the East and this tendency would continue unless a solution of the conflict is found. The foreign companies' planes flew over a small portion of territory of the country. The taxes were paid based on the weight and the territory they were flying over. There were no changes in the aircrafts taking off from Sofia airport, but many foreign companies cancelled their flights. Even Balkan Bulgarian Airlines cancelled some of their flights.

The losses in the area of automobile transportation were the biggest. According to the initial data they amounted to DEM 2 million per day. The passing licenses were

redirected from Yugoslavia to Romania. The license quota was too small and respectively was spent very quickly.

Romania gave Bulgaria 12 000 licenses without travel tax, 20 000 licenses with travel tax, and 2 500 licenses for third countries, half of them without travel tax. Moreover, 1000 licenses, valid for the 60 kilometers frontier zone were given and they were without travel tax. The routes of 27 international bus lines, going through Yugoslavia to Poland, Holland, Germany, Belgium, England, Austria, Switzerland and France, were redirected through Romania. This caused serious problems during the first days of the war, problems, related to the differences in the technical requirements. While Yugoslavia allows axle load up to 22 tons, Romania permits only up to 10 tons. That is why a great number of Bulgarian buses were stopped at the frontier and had to pay high fines.

Due to the changed routes every time the traveling to Europe was increased with DEM 1000. The distances are bigger and the taxes - higher. Approximately, DEM 300 more should be paid for fuel and DEM 700 - for taxes. These sums do not include the fines and the taxes not stipulated by the law, but which the drivers had to pay since they were forced to do so.

The blocking at the border cross points inflicted additional losses. The long stays were fatal for the transportation of non-durable and perishable products. The main reason for the blocking was that only one single bridge connects Bulgaria and Romania. The two ferryboats, which served the line Vidin - Kalafat, were insufficient and they could not accept the heavier traffic of cars and trucks.

Officially the forecasts envisaged around 50 percent increase of the transportation expenses. The losses of all transporters were said to be \$1.5-2 million per day. It was expected that with the time the real losses in land transportation would decrease due to the political pressure aiming at preventing the unofficial payments and other institutional relieves. The price for the railway expedition of one ton of freight through Romania was \$3-\$4. The transporting time increased with 4 days.

#### Decrease in export and loss of markets.

The expectations for greater losses were related to the new structure of commerce. More than 55% (about 60%, according to the Center for Study of Democracy; and 50.3%, according to Galina Alexandrova) of the Bulgarian export goes to Western and Central Europe, while during the crisis in 1994-1995 it amounted to 40%.

The main trade routes connecting the East to the West go through Yugoslavia. The closed Yugoslav territory sufficiently reduces the Bulgarian export capabilities. It was expected that if the crisis continues more than 2-3 months it would most likely have a negative effect on the balance of payments. Practically Bulgaria lost all its export to Yugoslavia. In 1998 Bulgaria's export to Yugoslavia amounted to \$95.53 million. A big downfall in Bulgaria's export for Macedonia was also expected. In 1998 it was \$97.8 million but in fact more than 60 percent of it was re-export for Yugoslavia, which would be impossible if the trade between the two countries was blocked. According to different sources, between 50 and 60 percent of the Bulgarian export is directed to West European countries while the import amounts to 44.6 percent. Due to the increased costs and the long delays this export would sufficiently decrease. The shrinking markets are expected to result in production downfall. In fact, Bulgaria's experience with the previous

embargo on Yugoslavia shows that quite the opposite can take place, provided military actions are followed by economic sanctions - under embargoes the illegal export and gray economy mark a significant increase. In 1994-1995, for the very first time since the changes made on November 10<sup>th</sup> 1989, there was an increase in the Gross National Product of the country. This was as a result of the illegal export, mainly of oil products and nitrogen fertilizers for Yugoslavia and their re-export to Macedonia. In this particular period the shadow economy in Bulgaria mostly made its money and increased its influence over the economic life and the state structures. Galina Alexandrova and many other authors in Bulgaria wrote that the country was facing the same threat in 1999.<sup>5</sup> According to the auditor Emil Dimitrov every living soul is lined up waiting for the embargo. He also adds that corruption was at its highest peak at the time of the previous embargo. State structures gave no signs of readiness to react adequately to the problem. Nevertheless, such expectations were not justified because they did not take into account that the situation in 1999 was completely different from the situation during the war in Bosnia. Even one and the same authors, like Galina Alexandrova for example in other articles recognize this difference.<sup>6</sup>

In 1993 the war was somewhere in Bosnia and the transportation was not affected that much. And there were no other reasons for tightening Bulgaria's trade relations with Serbia other than the imposed embargo. There were certain trade restrictions but the infrastructure, the chain of contacts remained intact and this made the deliveries in the

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<sup>5</sup> Alexandrova, Galina "War in Yugoslavia Accelerates Problems in Bulgarian Economy."

<sup>6</sup> Alexandrova, Galina "Embargo Bulgarian Style."

See also: Yovo Nikolov "Corruption - Biggest Threat for Embargo Against Yugoslavia." *Capital Press*, Sofia, 5/13/99, available in the Internet at: <http://www-us.capital.bg/weekly/99-17/31-17-1.htm>

embargo zone possible through re-export, humanitarian deliveries as well as through semi- legal and illegal channels. Practically, there was no border between Macedonia and Yugoslavia, while Serbia, which did not suffer any damages as a result of the war, was a solvent market and the export resulted in huge profits. That is why a small part of the Bulgarian companies, which traded with Yugoslavia, decided to direct their export to the West. Most of them have simply chosen to change the check- point instead of the one entering Belgrade they chose the one to Skopje, and from it again to Belgrade. Officially, the state supported the embargo and observed it strictly. Unofficially, the embargo was violated with the help of the incumbents. In 1999, the situation was very different. The war was in Yugoslavia itself and NATO air strikes were destroying companies vital for the Yugoslav economy as well as the infrastructure connecting the Balkans with Western Europe. Transport was re-directed to roundabout routes because it was dangerous to go through Yugoslavia, although the traffic through the country was not banned. After the destruction of the bridges on the Danube going through was entirely impossible. In March 1999, people running small businesses, who still remembered the previous embargo, were getting ready for illegal trading. But with small deals the difference in prices and profits is so small that it is not worth the risk, whereas for the big deals there are special legal channels for import. The previous embargo was economic and came into force with UN imposed sanctions. In 1999, the embargo was partial: it was related only to petrol and its derivatives and was imposed by the EU Council of Ministers. Only the European Union member countries approved it, whereas countries like Ukraine, Russia and China did not even intend to observe it. In this way a great deal of the routes for petrol delivery to Serbia remained open.

Another substantial difference was that the violation of the previous embargo had become a national policy or at least, the state had nothing against the violation of the sanctions by companies close to Berov's Government (then in power). In the case of this embargo the incumbents declared that they would observe the ban on oil export to Yugoslavia and it sounded quite serious. The fact that NATO satellites or their special planes could register any violation of the sanctions executed by Bulgaria would negatively affect the endeavors of the incumbents to bring Bulgaria into the Atlantic and European structures.

Thirdly, in 1999 Macedonia was in a completely different position and could hardly be expected to have such a free trade policy as it did earlier. In 1997-1998 Bulgaria's trade with Serbia was relatively low. In this situation, the Bulgarian embargo on Yugoslavia was not such an effective tool for economic pressure. It was rather a demonstration of political measures, aimed at confirming Bulgaria's support for NATO.

The loss of markets was expected to be mainly in the EU and CEFTA countries. According to the forecasts of Krasen Stanchev, these losses could be compensated to a certain extent by regaining our positions in Russia and the countries of the former USSR. This reorientation would save immediate trade losses but will probably have negative institutional consequences at the level of company strategy. The problems are related to a decrease in compatibility at a later stage. (The relations between Bulgaria and Russia were aggravated by the Bulgarian position towards NATO. This affected to a certain extent the trade relations between the two countries.)

Losses in tourism could not be calculated partly due to lack of information about this sector. Tourists from Yugoslavia and Macedonia generally amount to no more than

8-10 percent of the total number of tourists in Bulgaria and they usually visit family hotels. To a certain extent the competitiveness of the Bulgarian tourism depends on the fact that the prices are similar to those in Greece but the quality is far from being the same.

Internal barriers: In the other sectors, as is the case of tourism, there are internal institutional impediments for their development. Railway transportation is rendered more expensive but the problem with it was the difficulty to find routes alternative to the ones going through Romania. Another example: the fees at Varna and Bourgas ports are similar to those in Thessaloniki and the Aegean Sea, but, at the same time, they are three times as much as the fees in the Romanian port of Konstantsa. A research carried out by the IME and the American University pointed to the transport expenses that could have been, but were not reduced by the Bulgarian land transporters, ports and the Bulgarian State Railways. The Black Sea transportation is much more expensive than that in Western Europe. The difference is very big - \$2.56 for one kilometer compared to \$0.36 in the Mediterranean. A possible reason is the operational inefficiency; another one is limited capacities, resulting from incompetent management. The internal obstacles hamper the compatibility of the Bulgarian products. According to a poll carried out by the IMF the productivity of the private companies is 30 percent more than that of state-owned companies. The state monopolies in the energy sector are effective creditors of the state sector: their effective (quasi-fiscal) subsidy and delayed payments to creditors in 1998 amounted to more than 900 million DEM. In other words, this is one fourth of the forecasted losses in the case of the worst scenario. This figure is more or less equal to the most pessimistic scenario for a deficit on the current account for 1999.

Losses resulting from decrease in foreign investments and decrease of the investors' confidence in the area:

At a special session of the Parliament the Prime Minister pointed out that the effect of the Kosovo crisis might jeopardize Bulgaria's market reforms, which to a large extent depend on attracting foreign investment.

A decrease of direct foreign investments, amounting to \$200-400 million was expected. The emission of euro bonds for \$200-250 million was postponed. The experts envisaged up to one-sixth reduction of import of capital goods, which is much lower as compared to 1998. The International Monetary Fund experts came to the conclusion that in case the war was prolonged the financial deficit for Bulgaria would be up to \$300 million.

As early as the beginning of the war the fears that the level of confidence in the region would decrease were proved. On April 1<sup>st</sup>, while most emerging market bond prices edged slightly higher, Bulgaria's outstanding bonds drifted lower, reflecting concerns over the spill over of the conflict in Kosovo. Within the 3-4 days before the beginning of the air strikes against Yugoslavia, the price of the Bulgarian Brady Bonds had decreased by four points. The ratio between the exchange rates of the dollar considerably increased.

A survey, made by the Bulgarian International Business Association, among foreign businessmen, showed that not a single foreign investor, already working in the country was not considering any change of plans or leaving the country because of the war in Kosovo. However, it was expected that the military conflict would repel the new investors intending to invest in Bulgaria. A proof of it was the withdrawal of the



American Pharmaceutical Company ICN Pharmaceuticals, which signed an agreement for the main share of the factory for veterinary medicine supplies "Biovet" - Peshtera, at the amount of more than \$13 million.

#### **IV. REAL ECONOMIC CONSEQUENCES OF THE WAR FOR BULGARIA**

##### **A. SHORT-TERM ECONOMIC IMPACT**

Fortunately the war finished by mid June and lasted less than two and a half months. This was the main reason for the gap between the pessimistic estimates and the real damages. Most probably due to this fact after so many preliminary estimates about the negative economic impact of the war there are not many substantial analysis of the real impact, based on the interpretation of economic performance at the end of 1999.

According to the official tally, the economic damages for Bulgaria were somewhere along the lines of DM170 million (\$85 million according to the present exchange rate). In that aspect, Galina Alexandrova, the only author who argued that the negative impact of the war would not be so significant, should be pleased. As it turns out, "the war's effect was more psychological than real. A rise in the trade deficit was going on well before the crisis hit, and its rise after the first Tomahawk hit on March 23<sup>rd</sup> was only slightly faster. Only the cheapest exports competing solely on price were affected by greater shipping costs, and in fact, at least one sector, tourism, supposedly even profited as tourists left countries perceived to be in the war zone, like Croatia for example. Following Milosevic's tactical capitulation, Kosovo rapidly faded from sight, and even Sofia's clamor for some kind of reparations for economic damage tapered off."

Alexandrova's main point that the problems in the Bulgarian economy are caused by lack of decisive and competent domestic policy of reforms, by state monopolies, bureaucracy and corruption sounded quite reasonable. But her assertion that the war

would only catalyze these problems, raising the price that the country would pay for the delay of the reforms, was too arbitrary and one-sided. It could have been reasonable in case the war was short (as in fact it was), but if the prognoses for a long lasting war were realized, the effect of the war would have really been destructive and devastating, no matter how successful the reforms were before the war. Therefore any sarcasm and spiteful satisfaction seems at least out of place.

The statistical data at the end of 1999 showed at least two aspects not supporting her points:

First, there is an obvious aggravation of the economic performance of the country in the second quarter of the year, when the war took place;

Second, the data about the second half of the year showed real growth, which happened for the first time during the post-totalitarian period (excluding the period of the embargo-trade during the war in Bosnia). This justifies the policy of the government, despite of all contradictions, corruption scandals and others.

Another broadly tackled problem was how reliable was the data of the National Statistic Institute (NSI)? But in spite of all doubts and reserves, this is the only available source, and it proves the relative success of the Government policy.

**The gross domestic product increased by two percent in the first nine months of 1999, according to the data of the NSI.** Calculated in current prices the GDP reached almost 16.121 billion Leva, which means 1,952 Leva per capita. The striking fact is that after the end of June the NSI registered an abrupt increase of this index. **The GDP increased by 4.5 percent for the third quarter of 1999** as compared to the same period in 1998. For the sake of comparison, the GDP increased only by 1.6 percent in the

second quarter of 1999, which was explained with the effect of the Kosovo crisis. This forced the Government and the International Monetary Fund (IMF) to amend the forecasts for the expected growth of GDP from 4.0 to 1.5 percent for the whole 1999.<sup>1</sup>

The main reason for the increase in GDP is **the increase in investments and consumption as well as the improved efficiency of production due to the restructuring of economy.** "The economic growth results mainly from the transfer of activities from the unproductive and inefficient state-owned sector to the highly efficient private sector," Mariela Nenova, head of the Agency for Economic Analyses and Forecasts, pointed out.<sup>2</sup>

The NSI also registered the amount of the gross added value realized by the different branches and sectors of the economy. It increased by 1.6 percent for the period January-September. The gross added value increases by 4.7 percent for the third quarter of 1999 as compared to the same period of 1998 (and accounts for 88.6 percent of GDP). The margin to 100 percent is due to indirect taxes and import duties. According to the data of the NSI for the third quarter of 1999 the performance of the agricultural sector seems very good. This sector accounts for over 26 percent of the added value. The explanation is that over the period July-September the harvest was gathered. This increase is due to the improved ratio between production and expenses made rather than to the greater amount of agricultural produce. Still the results of the sector are improving

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<sup>1</sup> Gerkova, Dessislava "National Statistics Institute Registers Two Percent Growth Until End of September." *Capital Press*, Sofia, 1/29/00, available in the Internet at: <http://www-us.capital.bg/weekly/00-02/14-2.htm>

<sup>2</sup> Gekova, Desislava and Boyan Kolev "Growth Expectations Exceed Growth Itself." *Capital Press*, Sofia, 1/29/00, available in the Internet at: <http://www-us.capital.bg/weekly/00-01/12-1.htm>

- the added value has increased both in the third quarter (by 6.8 percent) as well as in the first nine months of 1999 (by 6.7 percent) as compared to the same time span in 1998. The services also registered an increase by 6.3 percent for the third quarter of 1999 and by 2.7 percent for the first nine months of 1999. The performance of industry, however, was not so good. In the third quarter of 1999 the added value in the industry dropped by one percent, mainly due to the negative influence of the plants from the processing industry, while in the period January-September, there was a four-percent drop. The striking fact is that the private sector, which accounts for 72 percent of the total added value of the national economy, has greater influence on the changes registered in the added value.

The new data of the NSI confirms the trend of keeping a **negative foreign trade balance**. For the period July-September the import exceeded the export by 88.6 million Leva and for the first nine months of 1999 - by 1,139 million Leva. Despite the increase in export in the third quarter of 1999, for the whole period January - September it marked a nine-percent drop as compared to 1998. As far as the import of goods and services goes it increased by 3.9 percent in comparison to 1998. <sup>3</sup>

According to data provided by the Bulgarian National Bank (BNB), in the first three months of 1999 the balance of payments showed a deficit of slightly more than \$300 million. In reality this had nothing to do with the war in Kosovo, which started on March 24<sup>th</sup>. This data showed, and in that Alexandrova was right, that the problems of the Bulgarian economy started long before the bombings in Yugoslavia. According to the BNB data, the deficit on the current account amounts to \$233.6 million. The balance

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<sup>3</sup> Gerkova, Dessislava "National Statistics Institute Registers Two Percent Growth Until End ..."

on it deteriorated with more than \$144 million compared to the same period in 1998. The main factor for that is the deterioration of the trade balance, which for the first three months of the year is minus \$143 million. The drop in export in the period, however, is not caused by the war in Kosovo, but by the poignant problems that Bulgarian economy experienced. In practice, the Bulgarian industrial products could not be sold abroad because of the obsolete technologies, the material and labor consuming production. The advantage of the low wages has long been overshadowed by the negative factors - old technologies and lack of money for investments. That these factors had piled up for years makes them even more difficult to be settled and thus they turn into a problem causing concerns in all sectors of the economy. The data on the sales proceeds of industrial companies for the first three months of 1999 confirms the negative tendency and the worsening conditions in the real sector of economy. <sup>4</sup>

In fact, the parameters of the balance of payments improved in February as compared to January and then in March as compared to January. At that time it was believed that the improvement was not a stable tendency. Regretfully, the outbreak of the war made impossible to accept or deny this point. The data for April considerably darkened the horizons again. The Trade Ministry announced in April that the balance of payments suffered \$70 million monthly losses as a result of the Kosovo war. The data in the beginning of April pointed yet another problem which was said to have come onto the scene as a result of the Kosovo crisis. And more particularly the amounting to approximately \$26 million loss for the first quarter the Services realized. According to

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<sup>4</sup> "Balance of Payments Shows \$300 Million Deficit Even Before Kosovo War." *Capital Press*, Sofia, 6/14/99, available in the Internet at: <http://www-us.capital.bg/weekly/99-22/03-22-1.htm>

the calculations of the Central Bank it resulted from the lower proceeds from transport services and tourism. In fact, all these calculations were made before the influence of the Kosovo conflict was estimated. Having this in mind, it is frightening to think how would the balance of payments for the first half of 1999 look like. Peter Stella, the IMF representative for Bulgaria, said, as quoted by Reuters, that in April the current account will show bigger deficit than previously estimated.

Indeed, the accumulated deficit on the current account of the balance of payments for the first eleven months of 1999 amounts to 543.7 million dollars, according to preliminary data published by the BNB. For the same period of 1998 the balance registered a surplus of 62 million dollars. In November the deficit on the 1999 current account amounted to 107 million dollars, which was the second biggest after the one registered in January 1999. The aggravation is mainly due to the negative trade balance. The lower revenues from services also have a negative influence.

**The deficit on the trade balance over the period January-November amounted to 925.3 million dollars, which is 7.6 percent of the 1999 projected GDP.** It is expected that the trade deficit for the entire year would probably exceed one billion dollars. The government's projections for 1999 as far as the trade deficit is concerned were to the tune of 667 million dollars.

The deficit on the current account is compensated for by the registered surplus on the financial account of 459.3 million dollars. Direct investments in Bulgaria totaled 665.5 million dollars for the first eleven months of 1999. The increase in comparison with the same period of 1998 was 182 million dollars. The biggest increase was

registered in the amount of internal company credits lent by foreign firms, which is also considered direct investment. In November alone the direct investments totaled 157 million dollars, including the privatization proceeds from the Neftochim oil refinery (80 million dollars) and Expressbank (29.2 million dollars) deals. And over the period January-November the Bulgarian portfolio investments abroad increased by 211.4 million dollars. <sup>5</sup>

## **B. LONG-TERM CONSEQUENCES FOR THE BULGARIAN ECONOMY**

Despite some negative effects of the war on the foreign investments, which were foreseen, **the brave and risky official policy of support for NATO's intervention gained for the country political dividends**, which for the first time during its post-communist history seem not to be only a virtual and humiliating tapping but real dividends **directly transferable in immediate and long-term economic gains**. In other words, the economic damages that the war caused might be justified and compensated by strategic gains.

At the December 10<sup>th</sup> Summit of the EU Council of Ministers, Bulgaria and five other countries were invited to begin accession negotiations. Such an act of approval is a public relations coup, allowing the country to distance itself from weaker emerging markets and latch onto the trail of bright stars like Poland. Quickly forgotten was the price Bulgaria had to pay: the shortening of the planned service life of four reactors at Kozlodui. Undoubtedly this will spur conservation efforts, a good thing for an energy-

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<sup>5</sup> Kolev, Boyan "Trade Deficit Approximates One Bn Dollars." *Capital Press*, Sofia, 3/10/00, available in the Internet at: <http://www-us.capital.bg/weekly/00-08/17-8.htm>



inefficient country, but it also certainly means more reliance on brown coal and ultimately an end to the cheap electricity. At the same time, when the country's products are expected to face the full brunt of competition in the EU, they will have to do so when one of the main inputs becomes more expensive.

United States President Bill Clinton's November visit to Sofia provided yet another positive effect. For once, the Bulgarians were able to bask in praise for their political and economic progress over the past ten years. Following up on the goodwill generated by the visit, investors' conferences were held and OPIC funds were granted, but more such efforts are needed to create better ties between the United States and Bulgaria.

Another positive development was the noticeable surge in privatization. Numerous plants were booted out the door and the responsibility for bringing them back to life fell on private shoulders, many of them foreign. Neftochim refinery was sold to Russia's Lukoil for \$107 million (this makes Bulgaria much more vulnerable and dependent on Russian oil supplies), while Balkan Airlines went to Arkia and Zeevi of Israel. In the fertilizer sector, electronics plant DZU of Stara Zagora went to Videoton of Hungary, three pharmaceutical plants were sold to Balkanpharma, and the Petrol chain of filling stations went to International Consortium. In the financial sector Hebrosbank was sold to Regent Pacific and Expressbank to Societe Generale.

1999 was also a boom year for foreign investments in infrastructure. The ground was broken in October on the \$220 million Gorna Arda hydropower complex, which is part of a bizarre agglomeration involving the National Electric Company, its Turkish

counterpart, and Ceylan Holding, which will build a highway in Bulgaria to pay for the electricity exports sent eastward.<sup>6</sup>

However, up to now the biggest deal in the infrastructure remained elusive: long time (since the communist era) absolutely no progress was made on the construction of a second bridge over the Danube. Bulgaria obviously has a strong case for putting it at Vidin, and the war in Kosovo proved this point, but Romania did not budge from its position one iota, refusing to take advantage of the opportunity provided by the spirit of cooperation following the Kosovo crisis. Fortunately, during the recent weeks good news has come: at last an agreement was reached with Romania about the second bridge on the Danube at Vidin. Undoubtedly, if this news is correct and the agreement is conclusive, the success should be explained with effect of the recent war. The economic problems that the war caused have proved the rationality of the Bulgarian point for bridge at Vidin connecting this area directly to Central Europe. The political dividends gained by Bulgaria during the war helped its stand in the course of the negotiations. Most probably an eventual Romanian compromise on that subject could be a result from the political pressure from the E.U. and the United States.

Several other significant strides were made in foreign investments. Although nobody ever officially explained why it took so long, Rupert Murdoch's Balkan News Corporation finally passed most of the hurdles on the way to becoming the first national private TV broadcaster. Although the process was not finalized during 1999, Bulgaria is never hurt when a big name makes an investment there. In addition, a strong contender

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<sup>6</sup> Hein, Bill "The Bulgarian 1999: A Look Back to the Ups and Downs of the Past Year." *American Chamber of Commerce in Bulgaria Magazine*, available in the Internet at: <http://www.amcham.bg/analysis.htm>

like Murdoch will brighten the TV market for viewers and advertisers and shake the dullness of the competitors.

Another business deal of note was that American Standard also announced plans for its third factory worth \$18 million in the Gabrovo region. The March debut of Germany's Metro will also have a widespread effect on the economy. Besides being a significant investment, the hypermarket chain is introducing numerous innovations to Bulgaria, such as detailed receipts, a low-margin, high-volume sales strategy, and mass mailings of colorful catalogs.

Meanwhile, many chances were missed, not because of the war in Kosovo aggravated the investment climate, but because of the lack of transparency in the privatization, Government corruption (total corruption was the reason for the recent radical changes in the Cabinet), heavy and clumsy bureaucracy, huge tax burden, and other reasons that have nothing to do with the war.

Cliffhanger talks with Erdemir of Turkey concerning the sale of Kremikovtsi, a behemoth steel plant with 17,000 workers, ended in failure. Instead, the works was sent off to an uncertain future in the hands of the Bulgarian Daru Metals. The dark horse among the stiff competition, the Anglo-American International Water, was granted a 25-year concession to manage Sofia's water supply. It offered to invest \$152 million, just a tiny bit over the minimum requirement, and to likewise keep water prices for residents as low as possible. The biggest deal, "the pearl in the crown" of the Bulgarian privatization, the half-a-billion dollar sale of the Bulgarian Telecommunications Company (BTC), proved to be elusive. Perhaps not coincidentally, this deal was also one of the most

secretive. Recently, a few months after the fall of the man most personally related to the deal, the ex-vice-Premier Evgenii Bakurdjiev, information was circulated that at last the BTC will be sold for \$0.6 billion. During the first half of the 1990s, when the procedure and the negotiations for the BTC have started the company was estimated between \$2 and \$3 billions. The last fact shows very clearly that the policy of the Bulgarian Governments during the 1990s, the corruption and the bureaucracy have caused damages to the Bulgarian economy that are much more sufficient in comparison to the damages of the recent short-lasting war in Yugoslavia.

No matter that the war ended nine months ago the Bulgarian **transportation companies continue to register losses, because of the destroyed infrastructure of Yugoslavia.**<sup>7</sup> Though the problem remains in a long-term perspective. Until Milosevic is in power, the Balkans will never be a hotspot for investment. Yugoslavia is a black hole, isolated from infrastructure projects tying the region together, and stands between Bulgaria and Western Europe.

One of the possible solutions is **building new huge infrastructure projects, which would decrease the vulnerability of Bulgaria, and of the whole region, and would help to attract foreign investors.** At least, this is **the main idea of the National Economic Development Plan of the government for the period 2000- 2006**, which is being updated after the recent Cabinet changes. Quite logically, one of the priority sectors is infrastructure. It takes a lot of time and costs as well as a lot of money to build decent roads. For example, the construction of a kilometer of motorway costs some \$3

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<sup>7</sup> Kanchev, Nikolay "Gubim Tranzitni tovari zaradi Serbia." (in Bulgarian: "We are losing freights because of Serbia.") Pari newspaper, Sofia, 12 Jan 2000, available in the Internet at: <http://www.news.pari.bg>

million. Bulgaria needs to improve its road network but is unable to finance it by itself. Only in 1999 several projects started 20 years ago were finished, such as the construction of the Southern Ring Road of Veliko Turnovo (my birth town in Northern Bulgaria) and the Rodopi overpass near Plovdiv (in Southern Bulgaria.) Some 1050 km of road were reconstructed.<sup>8</sup>

It is not possible to realize such tasks with Bulgarian (or other Balkan countries') resources only. This should one of the strategic tasks not only for the Bulgarian and for the other Balkan countries' governments, but also for the international financial organizations, the EU and others. This strategic paradigm became a key element of the post-war reconstruction programs and of the so-called **"Stability Pact for South Eastern Europe."** **Foreign financing and involvement of local companies for implementing these projects would have an additional favorable effect** on the Bulgarian and other Balkan countries' economies in transition, disrupted after the failure of the central planning system and weakened by the war.

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<sup>8</sup> Ivanov, Konstantin "Infrastructure projects in Bulgaria Lead to Better Investment Climate, More Jobs." *American Chamber of Commerce in Bulgaria Magazine*, available in the Internet at: <http://www.amcham.bg/analysis.htm>

## V. ECOLOGIC DAMAGES AND THEIR POSSIBLE LONG-TERM EFFECT ON THE BULGARIAN ECONOMY

Finalizing the analysis of the economic impact of the war in Kosovo on the Bulgarian economy, it is worth mentioning that **not a single economic expert, a representative of the government institutions, and the expert commissions of the international organizations has taken into account and has made any assessments of the long-term economic impact of the *ecologic damages* caused by NATO bombings, though it is difficult to come up with detailed figures. At least it needs a particular detailed expert analysis.**

However, even a non-expert glance at the facts shows that Yugoslavia has suffered heavy ecological damages (some critics even estimate them as an ecologic catastrophe). Some of these damages affect also to a certain degree some areas in Bulgaria as well.

A preliminary report on the environmental impact of the war in Yugoslavia, prepared by the Regional Environmental Center for Central and Eastern Europe (REC) in compliance with a contract with DG-XI of the European Commission, released on June 28<sup>th</sup>, and presented to the EU Council of Ministers, ascertains that “the long-term public health and the environmental effects in Yugoslavia and throughout the Balkans are potentially catastrophic.”<sup>1</sup> At least 23 petrochemical plants, oil refineries and fuel storage depots in the Federal Republic of Yugoslavia were bombed, as were at least another 121

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<sup>1</sup> The full text of the REC report can be found on the Internet at:  
<http://www.rec.org/REC/Announcements/yugo/contents.html>

major industrial plants containing various chemicals and substances dangerous for the human health. Thousands of tones of highly toxic chemicals were uncontrollably released into the air, soil and water.

These are some of the facts presented in this report:

As a result of the bombing of the industrial complex in Panchevo (15 km north-east from Belgrade) “ethylene-dichloride, ethylene, chlorine, chlorine-hydrogen, propylene and vinyl chloride monomers were released into the atmosphere, water and soil due to bombardment damages and now pose a serious threat to human health in general and to the ecological systems locally and in the broader Balkan region.”

1,000 tones of ethylene-dichloride, close to 1,000 tones of a 33 percent hydrogen-chloride solution and 3,000 tones of natrium hydroxyde were released into the Danube, as well as 100 tones of ammonia, and tens of tones of chlorine, together with undetermined quantities of mercury. Ethylene-dichloride, considered a probable carcinogen, is known to cause damage to the kidney and liver. More than 1,000 tones of vinyl chloride monomer (VCM) were released. A VCM concentration of 10,600 times above safe levels was recorded a few kilometers away from the plant. VCM is a known carcinogen and that many scientists believe there is no safe level of exposure.

“While Pancevo was the city most seriously affected by pollutants released by NATO strikes, similar refineries and depots were hit at: Lipovica, Belgrade (several), Bogutovac, Smederevo (several), Novi Beograd, Novi Sad, Sombor, Pristina, Nis (*Nis is the administrative center of an area populated with ethnic Bulgarians, and located close to the Bulgarian border – D.R.*), Kragujevac, Baric, and Bor.”

The ecologic damages include potentially hazardous pollution from depleted uranium weapons, which will have as-yet-unknown impact on drinking water, and hence the food chain of the entire region.

**“In Bulgaria, water sampling of toxic metals and metalloids in the sediments near the border between May 25<sup>th</sup> and May 29<sup>th</sup> exceeded average longstanding levels by three times for lead, 1,400 times for copper, and 30 times for cadmium.”**

NATO bombing of power stations and transformers released the highly dangerous pollutant, PCB Pyralene. PCBs are known carcinogens, causing skin and liver cancers as well as damage to the reproductive organs. PCB poisoning can be passed from mother to child via breast-feeding. There is no safe level of exposure in the opinion of many scientists, and a single liter of PCB pollutes as much as a billion liters of water. The quantity of PCBs released into water and air is not known because even in sites where Pyralene use had been discontinued, PCB waste was often stored in drums rather than destroyed or neutralized.

The REC warns that: “Dramatic pollution of most rivers in Yugoslavia by heavy metals, pyralene (PCB), oil etc., will almost certainly affect the neighboring ‘downstream’ countries of Romania, **Bulgaria** and Ukraine in the coming days, months or years.”

While high concentrations of toxins in the air were an acute (short-term) result, the contamination of water and soil presents a long-term health risk. The REC conclusion asserts: “All released substances will undoubtedly become part of the future biochemical cycles—possibly with unpredictable transformations, which enlarge future risks.”



On May 27<sup>th</sup> Reuters reported that: Romania blames acid rain on NATO bombing. "NATO's two-month-old bombing campaign against Yugoslavia has caused acid rains in Romania and its authorities are concerned over the possible long-term impact of pollution on the Danube and the Black Sea." Acid rains in May in areas on the Yugoslav border were "the direct consequence of air pollution caused by fires following bombings" against targets in Yugoslavia, the Ministry of Environment pointed out in a report. Local officials report higher concentrations of heavy metals in the Danube - which forms Romania's southern border with Yugoslavia and Bulgaria over 1,075 km (670 miles), then forks into a delta before flowing into the Black Sea. A ministerial study of the Danube water pollution showed that copper, lead, chromium and cadmium concentrations during three days in a row in April were twice as much as the permissible levels. The study also showed zinc concentrations between 20 and 55 times more than the permissible levels during that same period.<sup>2</sup>

These facts show clearly that **the ecologic damages** in Yugoslavia also affect Bulgaria to a certain degree. Undoubtedly they **will have a certain hidden long-term economic impact, especially on such sensitive branches as agriculture and tourism**, which play a substantial role in the Bulgarian economy. What would be the most likely importance of this impact, how would the concrete figures look like is not impossible but too hard to be estimated.

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<sup>2</sup> <http://www.tigerherbs.com/eclectica/earthcrash/news/1999/05/27-5.html>

## VI. CONCLUSIONS

In spite of the initial highly negative and catastrophic expectations of the Bulgarian public, the country gains after the recent war turned out to be probably much more than the losses the country suffered. Bulgaria gained political dividends, which for the first time during its post-communist history seemed to be not only a virtual and humiliating tapping but also real dividends transferable in significant immediate and long-term economic gains. The prospects of the country for EU and NATO membership now seem to be much more realistic than ever in the past, because of the new attitude of the West towards Bulgaria. Nevertheless, the unpleasant truth is that internally (economically, socially, legislatively, and politically) the country is not still ready to meet the requirements of these organizations.

Although the consequences look like a "happy-end," it would be honest to confess that the war in Kosovo posed serious economic, political, ethnic and military risks to Bulgaria and brought serious ecological negative effects. Most of the immediate direct risks fortunately have fortunately already gone, there is a series of long-term risks that threaten the Bulgarian and the Balkans' future.

NATO intervention and the postwar settlements have not solved the ethnic, political and economic problems on the Balkans, but complicated them and created new ones. After the Kosovo's precedent, the possibility of future ethnic and national clashes now seems to be greater, and the risks for Bulgaria seem higher. Macedonia might be "the next in the Balkan domino." Many of the mentioned problems (including economic progress and social stability) have to be solved to some degree by the Balkan Stability Pact. Unfortunately, up to now both the Stability Pact as well as the documents of its commissions is much more filled

with good wishes and empty formulae than with real effective measures for economic recovery, social and political transition.

Now, Yugoslavia remains isolated, with a destroyed infrastructure and economy. It is like a “black hole” at the Bulgarian border on the road connecting the country with Europe. With the infrastructure projects that are among the major priorities of the European financial program for the Balkans and more particularly the transport corridors number 8 and 4 (only partially financed by the EU) the EU is trying to avoid destructed Serbia and to isolate it from the world, easing to some degree the burden of the damages that the war caused to countries like Bulgaria, Greece and Macedonia. An approach like that condemning a whole nation to isolation, destruction and humiliation, turning it into hostage of one person (Milosevic), could not be a basis for real stability, for long lasting peace and security on the Balkans, as it turns into a permanent source of economic, social, ethnic and political tension.

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